

BELARUSIAN MONTHLY ECONOMIC REVIEW



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- Belarus joined Customs union.
- Industrial growth strengthened.
- Belarus looks for new mechanisms of energy supply.
- Reduction of interest rates

Politics: Belarus joined Customs union

In July, Belarus ratified Customs Code of the Customs union between Belarus, Kazakhstan and Russia, which happened after the long period of uncertainty. De-facto Belarus joined the union on the terms and conditions set by Russia, having climbing down from its position that Customs union is possible only without any exemptions and restrictions. This decision is likely to have been made under a strong pressure from Russia, which informally threatened to put an export duty on gas supplied to Belarus and make non-tariff restrictions on Belarusian exports of meat products to this country. In the sphere of trade with energy resource, Russia and Kazakhstan met Belarusian demand just slightly: they agreed that exports duties for Belarus will be call off when Belarus has ratified the documents on the Single economic space – a planned further step. However, despite there is a tentative date for elaboration of these documents – January 1st, 2011 – the perspectives of its rapid coordination and ratification are ambiguous and may again become an instrument of political pressure by Russia. Hence, political relations with Russia are going to make more impact on the short-term performance of the national economy.

Real sector: Industrial growth strengthened

In Jan-May, real GDP grew by 6.4% yoy (6.1% yoy in Jan-Apr). Industry grew by 7.7% yoy (6.1% yoy in Jan-Apr) and made a major contribution among other branches into strengthening GDP growth. Among industrial branches the performance of the ferrous metallurgy improved considerably: in Jan-May its production grew by 7.3% yoy, while there was a drop of 4.8% yoy in Jan-Apr. In machinery the growth amounted to 5.0% yoy in Jan-May (3.4% yoy in Jan-Apr). However, the latter was due just to tractor machinery, while there was still a drop of 3.8% yoy in car machinery. A slight acceleration of growth took place in agriculture (5.5% yoy in Jan-May vs. 5.4% yoy in Jan-Apr).

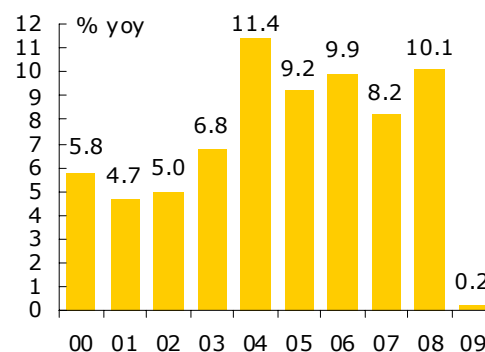
The dynamics of capital investments in May (growth by 0.4% yoy) was not so prosperous in comparison to April (7.1% yoy). Hence, in Jan-May, the growth rate of capital investments amounted to 0.3% yoy. Later on, the government is likely to stimulate the growth of investments more actively in order to provide the needed rate of GDP growth by the end of the year. In this situation search of the new sources of investments financing is still the core issue for the government.

Structural trends Belarus looks for new mechanisms of energy supply

In June, Belarusian President met with Lithuanian Prime-minister A. Kubilius. The discussion about the perspectives of the joint construction of a liquefied gas terminal in Lithuania became the core point of the meeting. Maritime supply lines of the liquefied natural gas (LNG) have become a serious alternative to the traditional pipeline gas supply at the world markets. For instance, a spot price for LNG in Europe is hesitating within USD 170-180 for 1 tcm, which is less than the price of the Russian gas supply to Europe. Belarus claimed about its interest to purchase about 8 bn m³ of LNG annually, which is substantially more than the planned volume of LNG imports by Lithuania

Population: 9.67 m
Industry / GDP: 28.1%
Agriculture / GDP: 8.4%
Investment / GDP: 27.9%
Export destination: Russia 32%, EU 44%
Import origin: Russia 60%, EU 22%

Real GDP growth



Source: National Statistical Committee.

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(about 2 bn m³). Hence, the value of the construction of the terminal that is valid to operate with the total volume for both countries will be much more than those just for Lithuania. According to the experts' estimates, the latter will be about EUR 650 m. Besides, the supply of LNG to Belarus will require additional costs for laying new pipelines. Despite considerable costs, this way of the energy supply diversification may become fully acceptable for Belarus, while the price for Russian gas for the country is going to reach the market level in 2011. Furthermore, it is vital from the view that Russia uses the gas supply as a factor of the political pressure.

Foreign trade: Growth of imports from non-CIS countries

In Jan-Apr merchandize trade deficit amounted to USD 2.1 bn, having declined by 21.5 yoy. However, the reduction of the deficit was due to the 1st quarter, while in April it grew both in annual (12.6% yoy) and monthly terms (by 7.9% mom) up to USD 825 m. The growth of the deficit was consequent to a sharp increase of imports from 15.7% yoy in March up to 24.4% yoy in April, while the growth of exports strengthened not so considerably (from 24.1% up to 30.1% yoy).

In April, the growth of imports from non-CIS countries (26.6% yoy) was substantially more than those of exports (5.3% yoy), which resulted in trade deficit of USD 185 m. Imports from non-CIS countries grew mainly because of the physical volume (by 25.1 % yoy), while the prices of imports grew only by 1.3% yoy. At the same time, the physical volume of exports reduced by 18.9% yoy. It was consequent to a sharp reduction of oil products and potash fertilizers supply.

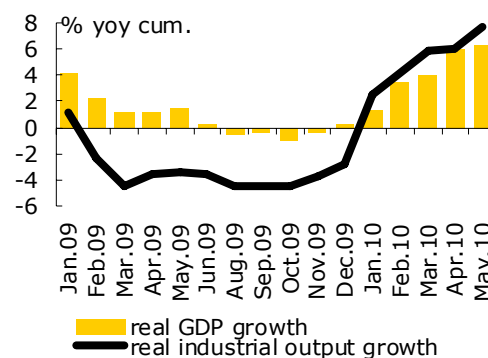
In trade with Russia imports growth rate increased from 1.6% yoy in March up to 20.8% yoy in April, while in monthly terms it grew by 19.2% mom. This was due to the increase of the physical volume of crude oil imports from Russia (by 21.5% mom), and its price (by 22.9% mom), which witnesses about the increasing share of the oil imported with the imposed duty. In April, the growth rate of exports to Russia increased up to 57.4% yoy (53.0% yoy in March), though it is mainly explained by the low base effect. In comparison to March the exports in value terms was almost unchanged, though the exports of some investment goods reduced. Moreover, because of the restrictions introduced by Russian supervision bodies, the physical volume of the dairy and meat products reduced. In overall, the situation at the Russian market for Belarusian producers is rather uncertain, because of the instable demand and the range of the protective measures by Russian authorities.

Public finance: Fiscal deficit is growing

In Jan-Apr, consolidated deficit amounted to 3.3% of GDP (1.0% of GDP in Jan-Apr 2009). Consolidated revenues amounted to 34.0% of GDP, including tax revenues of 31.2% of GDP. The latter was at the level of the 1st quarter of 2009, despite considerable changes in its structure. Revenues from the taxes on goods and services reduced by 1.6% of GDP, which was compensated by the increased revenues from corporate profit tax by 0.7% of GDP and VAT by 0.9% of GDP. Revenues from external economic activity were unchanged and stayed at the level of 4.9% of GDP, while non-tax revenues contracted.

Consolidated expenditures amounted to 37.3% of GDP in Jan-Apr. The main budget item – expenditures on economy – grew by 0.5% of GDP in comparison to Jan-Apr 2009 and amounted to 11.0% of GDP. Nevertheless, in comparison to the 1st quarter the growth of these expenditures was restricted (in the 1st quarter they were at the level of 11.1%, which 1.4% of GDP

GDP and Industrial Output



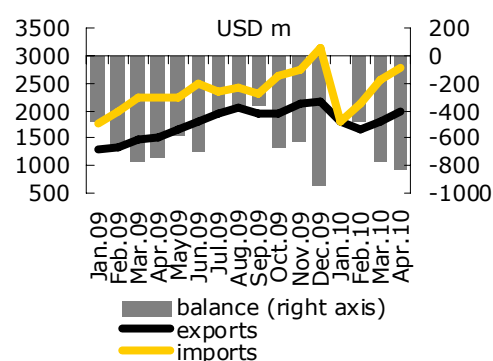
Source: National Statistical Committee.

Contribution of Aggregate Demand Components to GDP Growth

Percentage points	4Q 2009	1Q 2010
GDP, % yoy	1.7	4.0
Household consumption	0.1	2.7
Gross fixed capital formation	-3.7	-1.1
Net exports	7.6	3.2
Other components + statistical discrepancy	-2.3	-0.9
Domestic demand	-4.2	1.0

Source: Calculations based on the National Statistical Committee data.

Merchandise Trade



Source: National Statistical Committee.

more than in the 1st quarter of 2009). Limitation of this kind of expenditures is likely to be the one of the reasons of the poor growth of capital investments financed at the expense of the consolidated budget. The item of national expenditures, which includes the funds directed at the housing construction, grew due to the latter by 0.3% of GDP in comparison to Jan-Apr 2009. Thus, in the fiscal sphere the government is still dealing with the tradeoff between the desire of GDP growth stimulation and the challenge of the growing fiscal deficit.

Monetary policy: Further reduction of interest rates

In May, net foreign assets of the monetary authorities grew by 2.7% mom (by USD 148 m). In a great extent it was due to a sharp increase in banks' excess reserves in foreign currency (by USD 654 m). NBB kept on active increase of money supply through refinancing of banks (claims on them grew by 20.4% mom) in order to stimulate economic activity. In May, base money grew by 20.1% mom, while in annual terms its growth rate jumped up to 78.8% yoy (39.1% yoy in April).

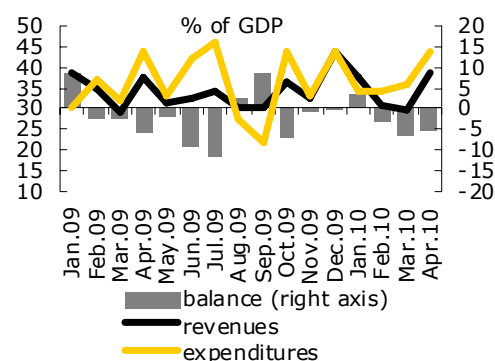
New monetary stimulus provided by the NBB – increase of money supply was accompanied by the reduction of the refinancing rate by 0.5 percentage points down to 12% – facilitated to high growth rates of the credit supply in the economy and further reduction of interest rates on all the segments of the financial market. Banks' claims on real sector grew by 2.5% mom, though in annual terms the growth rate of the outstanding loans reduced by 0.5 percentage points down to 32.2% yoy. NBB's refinancing played a huge role for the credit activity: in banks' liabilities the share of NBB's funds exceeded 15% (about 10% at the beginning of 2010 and 5% of 2009). Deposits in national currency were still growing more rapidly rather than those in national currency, because an interest rate spread between the correspondent instruments maintained. Cash money grew by 3.0% mom and 20.9% yoy in May (17.3% yoy in April). Ruble money and broad money grew by 3.7 and 2.4% mom, while in annual terms by 27.9% and 25.5% yoy correspondingly (24.2 and 23.1% yoy in April).

In May, consumer prices grew by 0.8% mom, while in annual terms the inflation amounted to 7.1% (6.6% in April). During May-June Belarusian ruble appreciated versus NBB's currency basket by 2.7%. Its exchange rate versus US dollar amounted to 3018 USD/BYR by the end of June, having devaluated in May-June by 1.9%.

Banking sector: New investments to the banking system are feasible

According to the number of mass media, the negotiations dealing with the attraction of the foreign capital to the Belarusian banking system are being held. German, Chinese, Iranian banks and European bank of Reconstructions and Development were mentioned as potential investors. The necessity of banks' capitalization deepening is one of the prior issues for Belarus. Attraction of foreign investments diversified by the origin may lead to beneficial effect on strategic and operative indicators of the banking activity. Among the potential investors listed, EBRD is likely to be the one, who may cause a positive effect for the whole banking system. If EBRD closes a bargain on Belinvestbank, it may provide a rather huge amount of investments that may not be affordable by private investors after the peak of the crisis. Furthermore, the experience of EBRD of having a stake in the equity of Priobank has shown that such investments may promote the development of a bank and its higher integration to the world banking system.

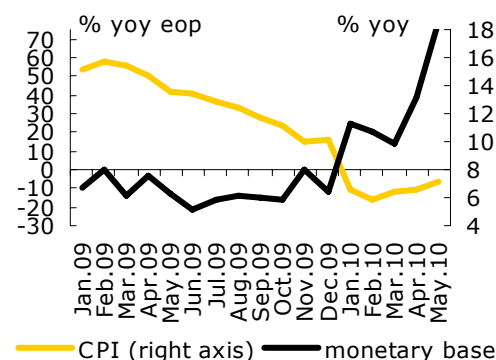
Consolidated Budget



Note. Since 2010 Social Security Fund is not included into the consolidated budget.

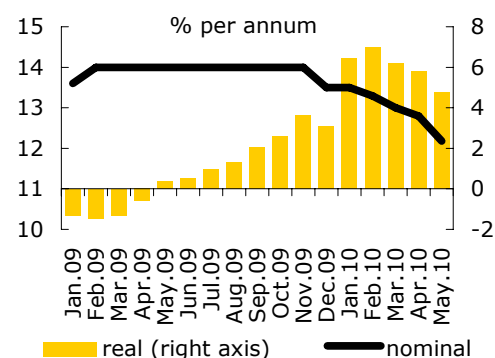
Source: Calculations based on the National Statistical Committee data.

Monetary Base and CPI



Source: calculations based on the National Statistical Committee and the NBB data.

Refinancing rate



Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Mar. 10	Apr. 10	May 10
GDP growth	% yoy	10.1	11.2	7.5	1.1	-0.4	-1.1	1.8	4.0	--	--	--
GDP growth	% yoy cum.	10.4	10.7	10.0	1.1	0.3	-0.3	0.2	4.0	4.0	6.1	6.4
Industrial Production	% yoy cum.	13.0	13.1	10.8	-4.5	-3.6	-4.5	-2.8	5.9	5.9	6.1	7.7
Agricultural Production	% yoy cum.	5.4	6.9	8.9	6.3	6.6	2.4	1.3	5.3	5.3	5.4	5.5
CPI	% yoy eop	16.0	16.3	13.3	15.5	13.4	11.7	10.1	6.4	6.4	6.6	7.1
PPI	% yoy eop	16.2	18.5	14.2	21.4	15.4	10.0	11.3	9.4	9.4	10.7	12.2
Merchandise export (USD)*	% yoy	56.0	44.9	-11.6	-48.9	-47.7	-35.4	2.9	29.2	24.5	30.3	17.4
Merchandise import (USD)*	% yoy	55.3	53.1	-1.5	-31.7	-33.4	-37.2	-1.7	8.9	14.7	24.4	18.5
Merchandise trade balance (NBB data)	USD m cum.	-2049	-3835	-6104	-1779	-3799	-4797	-6971	-1165	-1166	-1919	-2579
Current account	USD m cum.	-1382	-3006	-5263	-1925	-3597	-4408	-6402	-1127	-1127	--	--
Current account	% GDP cum	-5.5	-6.6	-8.7	-18.7	-17.1	-12.4	-13.1	9.8	9.8	--	--
International reserves	USD m eop	4618	4120	3061	3955	2650	3879	5653	6074	6074	6046	5778
Monetary base	% yoy eop	54	48	12	-14.2	-21.5	-15.0	-11.3	14.0	14.0	39.0	79
Lending rate**	% p.a. aop	10	11	14	17	17	17	17	17	15	14	14
Exchange rate (official)	USD aop	2136	2114	2147	2772	2809	2821	2768	2907	2962	2970	2988
Exchange rate (official)	EUR aop	3339	3183	2827	3614	3822	4032	4093	4028	4022	3986	3766

* Growth rates in value terms (source: Ministry of Statistics and Analysis).

** Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2003	2004	2005	2006	2007	2008	2009
Nominal GDP*	BYR trn	36.565	49.991	65.067	79.231	97.165	128.828	136.789
Nominal GDP**	USD bn	17.7	23.1	30.2	36.9	45.2	60.3	49.0
GDP Growth	% yoy	7.0	11.4	9.4	9.9	8.6	10.0	0.2
Industrial production	% yoy	7.1	15.9	10.5	11.3	8.5	10.8	-2.8
Agricultural production	% yoy	6.6	12.6	1.7	6.1	4.1	8.9	1.3
CPI	% yoy aop	28.4	18.1	10.3	7.0	8.4	14.8	13.0
CPI	% yoy eop	25.4	14.4	8.0	6.6	12.1	13.3	10.1
PPI	% yoy aop	37.5	24.1	12.1	8.3	16.2	14.7	14.5
PPI	% yoy eop	28.1	18.8	10.0	8.5	17.1	16.4	11.3
Exports (gs, USD)	% yoy	24.4	35.7	15.8	21.8	24.3	35.5	-33.0
Imports (gs, USD)	% yoy	25.1	40.3	3.0	33.0	27.9	37.6	-27.1
Current account	USD m	-424	-1206	510	-1512	-2944	-5263	-6402
Current account	% GDP	-2.4	-5.2	1.7	-4.1	-6.6	-8.7	-13.1
FDI (net)	USD m	170	163	303	351	1770	2143	2149
International reserves	USD m	474	770	1297	1383	4182	3467	5653
Fiscal balance	% GDP	-1.6	0.0	-0.6	2.2	0.6	0.9	-0.7
Domestic public debt	% GDP eop	5.5	5.7	5.8	6.5	6.4	6.7	5.8
External debt (total)	% GDP eop	23.7	21.4	17.9	18.6	28.4	24.6	45.0
Monetary base	% yoy eop	50	42	74	20	38	12	-11
Exchange rate (official)*	USD aop	2075	2160	2154	2145	2146	2136	2793
Exchange rate (official)*	USD eop	2156	2170	2152	2140	2150	2200	2863
Exchange rate (official)*	EUR aop	2353	2684	2681	2692	2937	3135	3885
Exchange rate (official)*	EUR eop	2695	2956	2550	2817	3167	3077	4106

Sources: National Statistical Committee, Ministry of Finance, NBB, IPM Research Center.

Notes:

aop	average of period	gs	goods and services
avg	average	trn	trillion
bn	Billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year
m	million	ytd	year-to-date